

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Examine the  
Commission's Future Energy Efficiency Policies,  
Administration and Programs.

Rulemaking 01-08-028  
(Filed August 23, 2001)

**ASSIGNED COMMISSIONER'S RULING SOLICITING POST-  
WORKSHOP COMMENTS ON ENERGY EFFICIENCY CUSTOMER  
NEEDS WORKSHOP AND SCHEDULING AND SOLICITING PRE-  
WORKSHOP COMMENTS FOR THE WORKSHOP ON PARTNERSHIPS**

This ruling summarizes the Commission's second and very successful energy efficiency workshop in this phase of this proceeding and solicits comments on topics concerning how the Commission might more adequately address the needs of customers, also known as energy users, in our effort to maximize the energy efficiency savings potential in California while at the same time, making energy efficiency a viable resource as stated in the Energy Action Plan<sup>1</sup>. In addition, this ruling also schedules a third workshop to address collaboration and partnerships among energy efficiency program implementers.

The Commission is conducting these series of workshops in order to learn from utilities, program implementers, energy consumers,

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<sup>1</sup><http://www.cpuc.ca.gov/static/industry/electric/energy+action+plan/index.htm>

manufacturers, consultants, government agencies and community organizations how the Commission may make the most of the state's energy efficiency resources in the coming years.

### **Summary of Workshop #2 Addressing Customer Needs**

The California Public Utilities Commission ("CPUC") in joint effort with the California Energy Commission ("CEC") and the California Power Authority ("CPA") hosted a workshop on December 15, 2003 to hear from representative energy users in an effort to focus on the individual needs of these energy users, or customers, in many cases by hearing from organizations that sell or install efficiency solutions. The workshop consisted of three different panels: Residential, Commercial and Industrial. Each panel was given the opportunity to address questions posed by the moderators and the audience. In general, the workshop was held in order to examine how the Commission can: 1) improve existing Public Goods Charge funded energy efficiency programs, 2) create new ways to achieve energy efficiency savings for the state of California, and 3) make changes in the current administrative structure to better meet customer needs expressed at the workshop. A summary of the major points made by participants at the workshop follows:

- Many participants supported the move to a two or three year program funding cycle (as opposed to a one year cycle) to give the

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Residential sector consisted of retailers and manufacturers of energy-efficient products, community-based organizations, hard-to-reach representatives and new residential construction and low-income housing representatives.

- program sufficient time to attract customers and mesh the program funding cycle with the investment decision cycles of customers.
- Some program administrators asked for more ability to shift funding and make changes in program design between funding authorizations (particularly for larger customers). On the other side of this spectrum, some retailers, building consultants and trade allies requested more consistent, standardized program designs with similar rebate amounts to be offered by all utilities across the state.
  - Many customers suggested the need for a more consistent and visible marketing campaign to keep energy efficiency programs and products at the top of the customer's mind.
  - Trade allies mentioned that their customers have both energy and non-energy motivations for investing in energy efficiency. They in turn stressed the necessity to design programs that capture both needs.
  - Several industrial customers indicated that their firms would not invest in energy efficiency measures unless they had payback periods of two years or less. Some suggested that the CPUC should only provide rebates for projects with 3 to 6 year payback periods. Most institutional energy users indicated they have problems getting capital for the up-front cost of efficiency projects, and that some form of financing would help them. Representatives of small business and industrial users suggested that variations of "on-bill" financing would enable them to undertake more efficiency measures.

- A wide range of opinions were presented on the value of rebate programs and the best way to design them. One related view was that rebates work only for the end-users that can afford to buy new equipment or appliances, but not for those whose financial circumstances dictate repairs and not replacement.
- Representatives of small and large businesses commented on the need to get better and more usable information on their monthly energy use from their utilities. Some businesses stated they could not even get electronic copies of their bills for use in spreadsheet analysis. Larger businesses indicated a desire to receive consolidated bills that contain the energy use from all of their facilities across the service territory, or state in some cases.

Based on these comments, I draw the following general conclusions related to proposed improvements in structure or design:

1. Expanding the program funding cycle from two to three years should be considered.
2. More flexibility is needed in program design to reach customers whose funding cycle does not match with current program cycle.
3. Customers want and deserve better information on their bills about the structure and pattern of their energy usage, and convenient ways to analyze and compare information for companies or institutions with multiple facilities throughout a city/county or California.
4. There is a need to tailor financial incentive programs to match the funding decision cycles of many different types of customers,

including non profit housing, different types of retail chains and different types of industrial customers.

Building in large part on the pre-workshop comment submissions and the discussion at the December 15 workshop, I would now like to solicit post-workshop comments of all interested parties, including those who did not attend the Commission's workshop. The purpose of these comments is to sharpen the feedback to the CPUC regarding these opinions and conclusions, hear from a wider audience than submitted pre-workshop comments, and to establish a robust, written record that the Commission will use in deciding the future structure, administration and implementation of energy efficiency programs throughout the state

I would like all interested parties to answer as many of the following questions as are of interest to you. Post-workshop comments for the Consumer Needs Workshop shall be limited to ten pages and should be submitted no later than March 5, 2004.

### **Timing and Duration of Energy Efficiency Programs**

1. **Funding Cycle.** Participants agreed that extending the program funding cycle to two years was a positive change for energy efficiency. Is there a need to go beyond a two-year program funding cycle? If so what are the specific reasons why a longer funding cycle would be preferable? Would it be possible to authorize program funding over a three-year period but also allow program administrators to adjust program designs on an annual or semi-annual basis to respond to feedback from the market place? What specific measures, projects or energy users require a funding cycle longer than two years to increase participation or investment in energy efficiency? What types of investments or increases in energy savings would result from longer funding cycles?
2. **Lead Time.** Several participants stated that due to internal (and sometimes external) budgeting and decision process reasons, they

require longer -lead times to participate in energy efficiency programs. How much lead-time do manufacturers and retailers need to effectively integrate energy efficiency into their production and marketing decisions? How long do commercial and industrial businesses require to plan and develop project designs and budget decisions that integrate energy efficiency? How much lead-time do residential and nonresidential new construction project developers need to be able to effectively participate in new construction programs? What lead times do government or institutional organizations need?

3. **Integrated Approach (multiple measures).** Several panelists and audience members recommended a more integrated approach to efficiency programs in which a comprehensive approach to both residential and non-residential investments and strategic upgrades could be encouraged, rather than providing separate programs for different types of measures or specific technologies. Should the Commission move toward an energy efficiency program structure that encourages “portfolios” of actions, including process-oriented improvements, and do so on a continuous basis, rather than approving isolated programs with a limited funding-cycle? What changes in administrative structure and or reporting requirements would be needed to support this change? What types of customers would benefit from this paradigm? What types of projects would fit into this paradigm? Which programs or measures might see a decline in efficiency gains if this type of approach were adopted?

## **Rebates**

4. **Purpose of Residential Rebates.** Participants in the residential sector panel commented that rebates serve multiple purposes including: to reduce the cost of energy-efficient products; to help close sales; to build “off-season” sales; to induce retailers to increase their dedication of floor space to energy-efficient products; to help shape future product investment by manufacturers and permanently increase the percentage of “Energy Star” or high-efficiency products on the market; and to introduce and educate consumers about energy-efficient options. A) Are there additional purposes that rebates serve? B) Which of these purposes do you think are most important to support with ratepayer funds? C) What is the best rebate program design and administration model to accomplish any or all of the important purposes? D) Would it be better for the State to raise the minimum efficiency levels required

for new equipment and appliances sold in California, and spend less money on rebate and promotion programs? E) Should the commission become involved in specifying the design\* of rebate programs or give administrators the choice of rebate designs, while at the same time requiring more rigorous evaluation of rebate programs? F) How should the Commission measure or evaluate the effectiveness of rebate programs?

5. **Purpose of Commercial and Industrial Rebates.** Some panelists from the commercial and industrial sectors suggested that rebates are often not the best strategy for encouraging efficiency investments in this sector. They stated that cash rebates are often not the determining factor in a company's decision to pursue an energy efficiency upgrade project, and that the project must meet internal financial considerations regardless of PGC funding. One participant recommended that rebates be applied only to projects that would not otherwise receive internal investment approval. Other panelists commented that limits on the size of rebates (by site and by corporation) prevent incentives for "big ticket" investments. Still another panelist suggested the State require that all new motors sold in California be more efficient than current standards require. How can the Commission encourage administrators to develop more effective "rebate" approaches for this sector? How can commercial and industrial programs be structured so that rebates have a stronger influence on capital investments and actually stimulate more efficiency upgrades and savings by the private sector? Would it be better for the State to raise the minimum efficiency levels required for new electrical or thermal equipment sold in California, and spend less money on rebate and promotion programs?
6. Many participants commented that the CPUC places too much attention on hardware rebates, and should instead reward results, with recognition of the value of non-hardware actions such as diagnostics, behavior, process-change, and commissioning. What other forms of incentive or reward (financial, service, or public recognition) could be more effective?
7. **Split Incentives.** Some residential and business participants identified split incentives between tenants and landlords as a significant barrier to energy efficiency investment. What types of programs should be

designed to deal with this barrier? How can the Commission encourage program administrators to come up with more innovative approaches to deal with this problem? For both the residential and non-residential rental sectors, how should the Commission contend with the split incentive dilemma with respect to landlords and tenants when deciding upon energy efficiency rebate programs?

### **Barriers to Energy Efficiency and Motivations for Investing in Energy Efficiency**

- 8. Energy Efficiency Rewards.** Barriers to energy efficiency identified by participants included a lack of capital and the difficulty of obtaining the support of financial decision-makers. Some panelists commented that creating energy efficiency leadership programs that reward exceptional programs; and soliciting energy efficiency as more of an insurance policy that guard against price spikes, might help to break down some barriers to energy efficiency investments. What other program designs should the Commission consider to overcome barriers to energy efficiency investments?
- 9. Better Information.** Representatives of both small and large businesses commented on the need for more and clearer energy use information to make sound business investments in energy efficiency. Among small businesses, customers lack comprehensive and simple information on their own monthly energy use that would help them prioritize the most cost-effective measures. Large businesses indicated that they need more comprehensive information about their energy use across facilities. What specific types of information would help businesses make better decisions about energy efficiency upgrades? How can the Commission encourage program administrators to provide higher quality information either by request or through their monthly bills? What is the best way to provide energy usage or other efficiency data to businesses, in terms of source, format, frequency and content of information?
- 10. Integration of Program Types.** It was discussed that currently energy efficiency, distributed generation, renewables, and demand response programs are offered by different administrators, under different rules, and with different objectives. Many panelists commented that if these were offered in a coordinated and simplified manner, customers would



value the comprehensive “one-stop” approach, and would be more likely to make investments and participation decisions to reduce or manage energy demand and save money on their bills. What should the Commission do to enable such an approach, and/ or integrate the presentation of these different types of programs to customers?

## **Marketing and Outreach and Education**

**11. Marketing Efforts.** Many of the panelists commented on the need to have a more consistent approach with respect to developing and providing marketing information on programs, appliances, and rebates. The utilities, for the most part, are viewed as the first point of contact. Manufacturers and retailers also play a role in bringing information to consumers. How can the state be more consistent in its efforts in creating a statewide approach to marketing and outreach? Are there changes needed to the relationship between the program administrator(s) and the manufacturers and retailers? Does the Flex Your Power website ( [HYPERLINK "http://www.fypower.com"](http://www.fypower.com) [www.fypower.com](http://www.fypower.com) ) meet the demands of a statewide and consistent approach to energy efficiency marketing information? Should this website be the primary online destination for customers interested in energy reduction information?

**12. Educational Outreach.** Education about energy usage is often seen as a tool that helps people and businesses understand the multiple benefits of energy efficiency. This understanding in turn, helps them implement energy efficiency measures and programs irrespective of the financial considerations and rebates involved. How can the state or its program administrators increase the effectiveness and/or amount of educational outreach that is sent to customers in all sectors? What other channels can be utilized to disseminate this information (e.g. via local organizations)? What aspect of education is missing from the state’s energy efficiency model? What customers are currently underserved by the state’s marketing and outreach efforts (e.g. non-English speaking consumers)? Does there need to be a different balance in the kind of educational activities, such as general promotion and awareness, customer education, or more specific technical assistance?

## Program Design

13. **On-Peak versus Off-Peak Savings.** Currently, PGC funded programs primarily target overall MWh energy savings through measures that reduce lighting or other base load demands. Should greater emphasis be placed on measures that reduce on-peak demand reduction? If so, this might mean shifting greater emphasis to ventilation and air conditioning energy use, or to programs that raise the price of energy and/or offer controls on the amount of energy used at peak times What types of programs and measures or end users should be targeted for greater attention? How can the Commission motivate program administrators to place more emphasis on measures that reduce peak demand?
14. **Flexibility.** Both the utilities and the participants agreed that programs need more flexibility in design and funding after they are approved. Flexibility, especially given two-year program cycles, would allow program providers to shift funding to successful programs and/or adjust program designs to better follow the market. What are some ways the Commission could structure program administration to allow for more flexibility? How would such flexibility increase program success and energy savings?
15. **Consistency.** The majority of participants commented on the need to have a more consistent approach with respect to programs, from incentive offerings to applying for rebates across all program sponsors. Currently there is some uniformity of program offered by the investor-owned utilities (PG&E, SCE, SDG&E), but this does not extend to areas served by municipal utilities and public utility districts (e.g. SMUD, LADWP, Palo Alto, Silicon Valley Power, and valley irrigation districts). How can California offer more consistent programs? Does the current program structure meet these demands? What could be improved?
16. **Meeting Customer Needs.** How well have recent programs met customer needs? What should State decision-makers, and/or program administrators (whether utilities or non-utility organizations) do to ensure that efficiency programs BEST meet the needs of energy users? Are there special kinds of programs needed to better meet the needs of particular end users, such as small businesses, government

organizations, lower income consumers, affordable housing developers, hospitals, and/or those speaking other languages than English?

17. **Program Process.** The CPUC used a Request for Proposal ("RFP") process in 2003 (for all program administrators) and in 2002 (for non-utility programs) to invite new ideas and competition for the best efficiency programs to be funded by ratepayers. Is the RFP process a good approach to continue? If so, how can the RFP process for program proposals from both utilities and third parties be improved? If not, what would be a better way for the State to determine how to spend efficiency funding? Should there be a standard contract developed for program administrators to use in working with partners and program implementers?

### **Financial Considerations**

18. **Payback Period.** Some panelists commented that a 3-year payback period is typically the maximum that most customers will consider to make an energy efficiency investment. How can the Commission encourage future program administrators to develop new program designs to address this constraint? What types of programs are most attractive to reduce the payback period to this three-year threshold?
19. **Access to Capital.** Many panelists, especially those speaking for small businesses, government facilities, and low-income households, indicated that it is difficult to get the funds needed up-front to pay for efficiency measures. Some panelists suggested there be greater attention to financing mechanisms that help address this cash flow problem, such as via low interest financing, "green" credit cards (where interest rates are lower for Energy Star products), or "on-bill financing", where energy efficiency purchases are financed and repaid directly on the utility bill over a period of years, hopefully matched by bill savings from lower energy use. How important do you think it is for one or more of these kinds of financing programs to be offered, and if so, for what kinds of end users?
20. **SPC program design.** We heard from industrial customers that they will invest in energy efficiency measures with a three-year payback or less even if the Standard Performance Contract rebate is not available. Should administrators be encouraged to develop new program designs that do not provide cash if the payback period is less than three (or two)

years? Should the Standard Performance Contract only fund programs that have a payback period of more than 3 (or 2) years without the SPC rebate? Should the Commission be involved in making decisions on payback period for SPC or any other type of efficiency program?

### **Workshop #3 Notice**

#### **Collaboration and Partnership among Program Implementers**

##### **Objective**

The objective of this workshop is to identify significant opportunities for all types of effective program partnerships that will assist in the maximization of energy efficiency savings in California. This workshop will not be limited to a discussion of partnerships with utilities. Rather, we would like to hear how other partnerships could be formed in addition to those the utilities have been conducting. Finally, we are seeking to more properly define and evaluate partnerships in order to more accurately measure their success or failure. The information we gather from this workshop will be used when we consider the future administrative structure of energy efficiency programs in California.

##### **Background**

Two workshops have been conducted thus far in Rulemaking ("R.")01-08-028. The first workshop was held on October 8, 2003, and identified Energy Efficiency Potential for California. The second workshop was held on December 15, 2003, and identified Customer Needs and areas of significant opportunity to improve energy efficiency program design and deployment. This third workshop on February 23, 2004, will focus on the opportunity for program partnerships to achieve greater energy efficiency savings.

Since 2002, the Commission has pursued funding of utility and non-utility (such as local governments, non-profit organizations, and private industry) energy efficiency programs. More recently, the Commission has stated its goal to increase energy efficiency savings in the state and has encouraged direct participation of multiple parties in the energy efficiency proceeding in order to do so. Furthermore, the Commission stated in D.03-08-067,

“We affirm our position in the July 3, 2003, Assigned Commissioner’s Ruling that we strongly encourage proposals from municipalities and local governments that would seek to partner with the utilities. Local governments and municipalities are potentially a vital source of energy savings and we hold high expectations that the utilities will partner with them in order to foster cost-effective energy efficiency programs along with the other program goals stated herein. It is imperative that these projects be integrated with utility local and statewide programs. We will hold the utilities responsible for ensuring that...programs created by local governments are given high priority when it comes to partnering, within the context of the stated public policy goals and program evaluation criteria.”

I seek to ensure that energy efficiency research and programs benefit from collaboration and shared learning. I see partnerships as a necessary condition to attain this goal and to achieve the energy efficiency savings potential for California.

### **Agenda**

In this workshop, I ask parties to identify significant opportunities for maximization of energy efficiency savings through partnerships and to be prepared to discuss the following topics:

#### Types of Partnerships:

- What customer segments (agricultural, industrial, residential, commercial, industrial) would best be served by partnerships?
- What kind of organizations can be effective partners? Can these include for-profit businesses, or only governmental and non-profit organizations?
- Is there an area of energy efficiency that lends itself more appropriately to partnerships than other areas (i.e., schools and education or local governments)?

- What types of knowledge, capabilities, and resources do non-Public Goods Charge funded partners bring to a partnership that enhances our abilities to achieve cost-effective conservation?
- How can additional funds for energy efficiency investments be tapped by way of partnerships? What are some examples of these partnerships?

#### Criteria for Partnerships

- What are examples of successful partnerships?
- What is the definition of a successful partnership?
- What steps can the CPUC undertake to encourage successful partnerships to be formed?
- What requirements or circumstances need to be in place for partnerships to be successful?
- What are examples of unsuccessful partnerships?
- Should one of the partners be in a management role for the program or should this position be held by a neutral entity?
- How can additional funds for energy efficiency investments be tapped by way of partnerships?

#### Criteria for Review of Partnerships

- What criteria should be used to evaluate whether or not a partnership has been successful?
- What is the role of an administrator in determining whether a partnership was or was not successful in ways other than meeting target savings?
- Should partners receive compensation for their contributions, or should this be “pro bono”?

#### **Format:**

This workshop will be different than the past workshops in that we seek to have more of an open discussion than to have panelists answer specific questions. We ask parties to be prepared to address the specific questions we have outlined herein. Also, we would like those parties who have had specific experiences in partnerships to be prepared to discuss what has and what has not worked.

**Workshop Date, Time and Location:**

Date: February 23, 2004

Time: 10:00 am

Location: Hiram Johnson State Building  
455 Golden Gate Ave., San Francisco

**IT IS RULED THAT,**

1. The Commission will conduct a workshop as described herein at the Commission's offices at 455 Golden Gate Ave., San Francisco, on February 23 at 10am in the Hiram Johnson State Building.

2. Responses to the questions for Workshop #2 must be filed with the Commission no later than March 5, 2004 and may be served on parties electronically.

Dated February 9, 2004 at San Francisco, California.

/S/ SUSAN P. KENNEDY

Susan P. Kennedy  
Assigned Commissioner

**CERTIFICATE OF SERVICE**

I certify that I have this day, served electronically the parties to which an electronic mail address has been provided, and served by U.S. mail the parties who do not have e-mail addresses, a true copy of the original attached Assigned Commissioner's Ruling Soliciting Post Workshop Comments on Energy Efficiency Customer Needs Workshop and Scheduling and Soliciting Pre-Workshop Comments for the Workshop on Partnerships on all parties of record in this proceeding or their attorneys of record.

Dated February 9, 2004, at San Francisco, California.

/s/ REBECCA BACON

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Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.